

10972

74

RECONCILE NEW ORLEANS, INC.

**CONSOLIDATED
FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date DEC 03 2014

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2012 AND 2011	4
CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011	5
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011	6
CONSOLIDATED STATEMENTS OF CASHFLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011	8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	9
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	29
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2012:	
Section I - Summary of Auditors' Results	32
Section II - Financial Statement Findings and Responses	34
Section III - Federal Award Findings and Questioned Costs	49
Section IV - Status of Prior Year's Findings and Responses	50
EXIT CONFERENCE	55



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Alcida J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA
Joseph A. Akanji, CPA

(Retired)
Michael B. Bruno, CPA (2011)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Reconcile New Orleans, Inc.
New Orleans, Louisiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of **Reconcile New Orleans, Inc. (RNO)** which comprise the consolidated statement of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
Reconcile New Orleans, Inc.
New Orleans, Louisiana

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to RNO's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RNO's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
Reconcile New Orleans, Inc.
New Orleans, Louisiana

Opinion

In our opinion, the consolidated financial statements previously referred to present fairly, in all material respects, the consolidated financial position of **RNO** as of December 31, 2012 and 2011, and the changes in its consolidated net assets, consolidated statements of functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2014, on our consideration of **RNO's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering **RNO's** internal control over financial reporting and compliance.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

September 30, 2014

RECONCILE NEW ORLEANS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets:		
Cash (NOTES 3 and 14)	\$ 668,696	\$ 740,986
Amounts receivable (NOTE 12)	360,738	412,096
Prepaid item and other assets	7,926	8,352
Investments (NOTES 7 and 14)	<u>-0-</u>	<u>1,328,509</u>
Total current assets	<u>1,037,360</u>	<u>2,489,943</u>
Noncurrent assets:		
Note receivable (NOTE 21)	1,170,835	-0-
Property and equipment, net (NOTE 9)	<u>4,033,497</u>	<u>719,374</u>
Total noncurrent assets	<u>5,204,332</u>	<u>719,374</u>
Total assets	<u>\$6,241,692</u>	<u>\$3,209,317</u>
<u>LIABILITIES</u>		
Current liabilities:		
Amounts and other payables (NOTE 17)	\$ 464,943	33,246
Salaries, taxes and withholding payables	38,044	3,581
Notes payable - current portion (NOTE 18)	5,315	-0-
Construction loan payable (NOTE 19)	<u>915,588</u>	<u>12,815</u>
Total current liabilities	<u>1,423,890</u>	<u>49,642</u>
Noncurrent liabilities:		
Notes payable (NOTE 18)	<u>899,717</u>	<u>-0-</u>
Total noncurrent liabilities	<u>899,717</u>	<u>-0-</u>
Total liabilities	<u>2,323,607</u>	<u>49,642</u>
Commitments and contingencies (NOTE 10)		
<u>NET ASSETS</u>		
Unrestricted	1,557,100	608,200
Temporarily restricted (NOTE 14)	<u>2,360,985</u>	<u>2,551,475</u>
Total net assets	<u>3,918,085</u>	<u>3,159,675</u>
Total liabilities and net assets	<u>\$6,241,692</u>	<u>\$3,209,317</u>

The accompanying notes are an integral part of these consolidated financial statements.

RECONCILE NEW ORLEANS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			2011		
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
Support:						
Grants (NOTE 8)	\$1,196,380	\$ -0-	\$ 1,196,380	\$ 299,579	\$ -0-	\$ 299,579
In-kind revenue (NOTE 11)	<u>1,596</u>	<u>-0-</u>	<u>1,596</u>	<u>18,132</u>	<u>-0-</u>	<u>18,132</u>
Total support	<u>1,197,976</u>	<u>-0-</u>	<u>1,197,976</u>	<u>317,711</u>	<u>-0-</u>	<u>317,711</u>
Revenues:						
Restaurant sales	166,142	-0-	166,142	406,863	-0-	406,863
Catering sales	76,449	-0-	76,449	140,180	-0-	140,180
Contributions and donations	616,576	50,000	666,576	430,207	1,118,673	1,548,880
Dividend and interest income (NOTE 7)	32,620	-0-	32,620	30,507	-0-	30,507
Realized gain/unrealized (loss) on investments (NOTE 7)	26,050	-0-	26,050	(23,430)	-0-	(23,430)
Fundraisers	63,059	-0-	63,059	56,700	-0-	56,700
Other	27,994	-0-	27,994	4,960	-0-	4,960
Net assets released from restrictions	<u>240,490</u>	<u>(240,490)</u>	<u>-0-</u>	<u>147,409</u>	<u>(147,409)</u>	<u>-0-</u>
Total revenues	<u>1,249,380</u>	<u>(190,490)</u>	<u>1,058,890</u>	<u>1,193,396</u>	<u>971,264</u>	<u>2,164,660</u>
Total support and revenues	<u>2,447,356</u>	<u>(190,490)</u>	<u>2,256,866</u>	<u>1,511,107</u>	<u>971,264</u>	<u>2,482,371</u>
Expenses:						
Program services	1,045,823	-0-	1,045,823	992,419	-0-	992,419
Management and general	418,262	-0-	418,262	368,213	-0-	368,213
Fundraising	<u>34,371</u>	<u>-0-</u>	<u>34,371</u>	<u>54,750</u>	<u>-0-</u>	<u>54,750</u>
Total expenses	<u>1,498,456</u>	<u>-0-</u>	<u>1,498,456</u>	<u>1,415,382</u>	<u>-0-</u>	<u>1,415,382</u>
Change in net assets	948,900	(190,490)	758,410	95,725	971,264	1,066,989
Net assets, beginning of year	<u>608,200</u>	<u>2,551,475</u>	<u>3,159,675</u>	<u>512,475</u>	<u>1,580,211</u>	<u>2,092,686</u>
Net assets, end of year	<u>\$1,557,100</u>	<u>\$ 2,360,985</u>	<u>\$ 3,918,085</u>	<u>\$ 608,200</u>	<u>\$2,551,475</u>	<u>\$3,159,675</u>

The accompanying notes are an integral part of these consolidated financial statements.

RECONCILE NEW ORLEANS, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012				2011			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Cost of sales-food and beverage	\$102,603	\$ -0-	\$ -0-	\$ 102,603	\$149,324	\$ -0-	\$ -0-	\$ 149,324
Salaries	565,314	124,384	4,994	694,692	352,034	126,054	-0-	478,088
Employee benefits	95,297	22,353	-0-	117,650	63,088	22,690	-0-	85,778
Student stipends	101,666	-0-	-0-	101,666	146,803	-0-	-0-	146,803
Payroll processing fees	-0-	7,778	-0-	7,778	-0-	7,043	-0-	7,043
In-kind expense (NOTE 11)	1,596	-0-	-0-	1,596	2,150	5,742	10,240	18,132
Contractual services and professional fees	22,886	19,438	-0-	42,324	20,555	56,977	-0-	77,532
Occupancy	47,982	4,208	10,863	63,053	43,427	22,654	18,580	84,661
Supplies	32,363	3,601	8,352	44,316	28,312	12,134	-0-	40,446
Insurance	-0-	13,698	-0-	13,698	-0-	20,330	-0-	20,330
Depreciation	-0-	17,364	-0-	17,364	-0-	19,555	-0-	19,555
Building and equipment repairs	-0-	17,822	-0-	17,822	-0-	13,252	-0-	13,252
Telephone	2,586	1,230	1,350	5,166	4,292	2,077	1,112	7,481
Bank service charges	-0-	1,654	-0-	1,654	-0-	1,650	-0-	1,650
Advertising	6,281	-0-	-0-	6,281	2,368	-0-	-0-	2,368
Travel	12,985	3,183	5,095	21,263	9,623	5,141	5,365	20,129
Grant writing expense	-0-	75	-0-	75	9,455	-0-	-0-	9,455
Printing	-0-	435	2,499	2,934	9,200	-0-	3,519	12,719
Credit card fees	5,121	-0-	-0-	5,121	8,362	-0-	-0-	8,362
Equipment and technology	-0-	20,244	-0-	20,244	-0-	25,132	-0-	25,132
Page total	996,680	257,467	33,153	1,287,300	848,993	340,431	38,816	1,228,240

The accompanying notes are an integral part of these consolidated financial statements.

RECONCILE NEW ORLEANS, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>				<u>2011</u>			
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>and General</u>			<u>Services</u>	<u>and General</u>		
Meals - employee	\$ -0-	\$ 8,045	\$ -0-	\$ 8,045	\$ 27,414	\$ 9,632	\$ -0-	\$ 37,046
Meals - student	8,911	-0-	-0-	8,911	69,605	-0-	-0-	69,605
Student assistance expense	19,402	-0-	-0-	19,402	-0-	-0-	-0-	-0-
Mentoring	-0-	-0-	-0-	-0-	8,405	-0-	-0-	8,405
Contract - labor	-0-	65,395	-0-	65,395	10,447	-0-	-0-	10,447
Assessment	-0-	-0-	-0-	-0-	2,300	-0-	-0-	2,300
Inspections	-0-	475	-0-	475	-0-	1,441	-0-	1,441
Uniforms	11,577	-0-	-0-	11,577	19,965	-0-	-0-	19,965
Drug testing	8,965	-0-	-0-	8,965	4,290	-0-	-0-	4,290
Postage and delivery	-0-	436	1,203	1,639	-0-	268	805	1,073
Staff training and development	288	2,497	-0-	2,785	1,000	2,882	-0-	3,882
Dues and subscriptions	-0-	8,240	-0-	8,240	-0-	5,232	-0-	5,232
Fees and permits	-0-	2,196	-0-	2,196	-0-	669	-0-	669
Design and production	-0-	-0-	-0-	-0-	-0-	474	-0-	474
Events	-0-	-0-	15	15	-0-	-0-	15,129	15,129
Management fees	-0-	30,000	-0-	30,000	-0-	-0-	-0-	-0-
Other	-0-	43,511	-0-	43,511	-0-	7,184	-0-	7,184
Total	<u>\$1,045,823</u>	<u>\$ 418,262</u>	<u>\$34,371</u>	<u>\$1,498,456</u>	<u>\$992,419</u>	<u>\$368,213</u>	<u>\$54,750</u>	<u>\$1,415,382</u>

The accompanying notes are an integral part of these consolidated financial statements.

RECONCILE NEW ORLEANS, INC.
CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cashflows from operating activities:		
Change in net assets	\$ 758,410	\$1,066,989
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss on investment	-0-	23,430
Depreciation	17,364	19,555
Changes in assets and liabilities:		
Decrease (increase) in prepaid item and other assets	426	(2,832)
Increase in amounts and other payables	431,697	21,822
Increase (decrease) in salaries, taxes and withholding payables	34,463	(800)
Decrease (increase) in amounts receivable	<u>51,358</u>	<u>(394,711)</u>
Net cash provided by operating activities	<u>1,293,718</u>	<u>733,453</u>
Cashflows from investing activities:		
Acquisition of investments	-0-	(497,103)
Rehabilitation of property and acquisition of equipment	(3,746,463)	(94,348)
Proceeds from sale of investments	1,328,509	-0-
Sale of property and equipment	<u>414,976</u>	<u>-0-</u>
Net cash used in investing activities	<u>(2,002,978)</u>	<u>(591,451)</u>
Cashflows from financing activities:		
Proceeds from notes payable	1,807,805	12,815
Origination of loans	<u>(1,170,835)</u>	<u>-0-</u>
Net cash provided by financing activities	<u>636,970</u>	<u>12,815</u>
Net increase (decrease) in cash	(72,290)	154,817
Cash, beginning of year	<u>740,986</u>	<u>586,169</u>
Cash, end of year	\$ <u>668,696</u>	\$ <u>740,986</u>
Interest expense paid during the year ended	\$ <u>-0-</u>	\$ <u>-0-</u>

The accompanying notes are an integral part of these consolidated financial statements.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BACKGROUND AND GENERAL DATA:

Reconcile New Orleans, Inc. (RNO) was established on October 21, 2002, via the changing of the corporate name from LSF Foundation named Desire, Inc., incorporated on January 10, 1997.

RNO's mission follows:

- **RNO** transforms the lives of young adults and the community through the ministry of reconciliation.

We do this by:

- Encouraging personal growth,
- Providing workforce development and training,
- Promoting entrepreneurship, and
- Working with businesses, non-profits and people of faith to support this transformation.

Core Values

At **RNO** we believe in the power of reconciliation to help us overcome poverty, prejudice and fear. We work to make things whole, and to celebrate and pursue a shared vision of hope and prosperity for all people.

- People of all races, cultures, and experiences can come together to pursue and achieve the common goals of spiritual, social, and economic enrichment and success for all people.
- Community members working together can effectively combat poverty, prejudice and fear through programs inspired by love, compassion, and the principle of self-help.
- Young people can have a voice in constructive change rather than being displaced by change.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - BACKGROUND AND GENERAL DATA, CONTINUED:

Cores Values, Continued

- Together we can be a model for inner city renewal, education, and shared success.

These beliefs are guided by a set of core values that include:

Reconciliation - overcoming poverty, prejudice and fear

Spirituality - teaching life's lessons through love

Hope - providing educational and economic opportunities for youth

Self-Respect - developing self-worth through holistic development

Education - learning through hands-on work

Collaboration - working through partnerships

Self-efficacy - transformation through experiencing success

Specifically, RNO's goals include the provision of:

- Educational opportunities and guidance to earn "GED" and literacy proficiency; and
- Individual contact with each student to boost self-esteem, maturity and social graces.

RNO partners with the following organizations in the accomplishment of its mission:

- Immaculate Conception Jesuit Church
- New Orleans Province of the Jesuits
- Culinary Training Program developed:
 - Ten week intensive on-the-job training course;
 - Life skills instruction curriculum and discussion groups; and
 - Planning and mentoring for future career opportunities.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - BACKGROUND AND GENERAL DATA, CONTINUED:

Consolidated Financial Statements

For the years ended December 31, 2012 and 2011, the consolidated financial statements include the accounts of **RNO** and its wholly owned subsidiaries Café Reconcile Landlord, LLC, Reconcile New Orleans Investments, LLC and .01% of Café Reconcile Tenant LLC owned and managed by Reconcile New Orleans Investments, LLC.

All significant inter-company balances have been eliminated at the consolidated financial statement level.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements include **RNO's** wholly owned subsidiaries for which it has direct authority to determine the financial and operating functions.

The assets, liabilities, revenue and expenses of the individual subsidiaries are fully consolidated. All intercompany balances and transactions are eliminated at the consolidated financial statement level.

Cash

For purposes of the consolidated statement of cashflows, **RNO** considers all highly liquid investments with a maturity of three months or less when purchased to be temporary cash investments. At December 31, 2012 and 2011, **RNO** had no temporary cash investments.

Contributed Services

Contributed services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, and would typically need to be purchased if not provided by donation. Contributed services for the years ended December 31, 2012 and 2011, were \$-0- and \$2,150 (see NOTE 11).

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Property and Equipment

Land, building, building improvements, furniture, fixtures and equipment are recorded at cost or estimated cost. Donated items received are recorded at the fair value at time of receipt. RNO capitalizes all fixed asset acquisitions of \$1,000 and over. When no historical records are available, fixed assets are valued at estimated historical cost. When assets are retired or otherwise disposed of, any resulting gain or loss is reflected in income for the period.

Equipment purchased with grant funds that revert to the funding source are expensed at time of acquisition without consideration of cost.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are not capitalized.

Buildings, building improvements, furniture and fixtures, equipment and vehicle are depreciated using the straight line method using the following estimated useful lives:

<u>Assets</u>	<u>Estimated Useful Lives in Years</u>
Buildings	20
Building improvements	15
Furniture and fixtures	5
Equipment	7
Vehicle	5

Income Taxes

RNO is a not-for-profit organization exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

Principles of Accounting

The financial statements of RNO are prepared in accordance with accounting principles generally accepted in the United States of America and on the accrual basis.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Basis of Presentation

For the years ended December 31, 2012 and 2011, **RNO** followed the requirements of Financial Accounting Standards Board Accounting Standards Codifications (ASC) Section 958-205, Not-for-Profit Entities Presentation of Financial Statements in the presentation of its financial statements. Under ASC 958-205, **RNO** is required to report, as applicable, information regarding its consolidated financial position and consolidated activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. In addition, **RNO** is required to present a consolidated statement of cash flows.

A description of the net asset categories are as follows:

Unrestricted Net Assets

Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of **RNO** are included in this category.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts and contributions for which donor-imposed restrictions have not been met. Some income is reflected in temporarily restricted net assets until utilized for donor-imposed restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets are contributions which are required by donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Unconditional Promises to Give

In accordance with ASC Section 958-205 Not-for-Profit Entities, Revenue Recognition, RNO reports contributions as recognized when the donor makes a promise to give to RNO that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

RNO uses the allowance method to determine uncollectible unconditional promises to give. At December 31, 2012 and 2011, the allowances for uncollectible promises to give were \$-0-.

Contributions

RNO reports all contributions in accordance with the requirements of ASC Section 958-605, Not-for-Profit Entities, Revenue Recognition. As such, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Receivables

Receivables are charged to bad debt when management deems uncollectible. At December 31, 2012 and 2011 allowance for doubtful accounts were \$-0-.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Funding

RNO is the recipient of grants and contributions from various organizations, individuals and a Federal agency.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Accordingly, actual reported amounts of revenues and expenses during the reporting period could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs, management and general, and fundraising services benefitted.

Investments

RNO has adopted ASC Section 958-320, Not-for-Profit Entities, Investments in Debt and Equity Securities. Accordingly, under ASC Section 958-320 investments held are recorded at their estimated fair market value in the statement of financial position.

Reclassifications

Certain reclassifications have been made to align 2011 to 2012 financial statements.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - CASH:

Cash consist of the following:

<u>Description</u>	<u>Interest Rate (%)</u>	<u>Maturity</u>	<u>2012</u>		<u>2011</u>	
			<u>Carrying Value</u>	<u>Estimated Market Value</u>	<u>Carrying Value</u>	<u>Estimated Market Value</u>
Cash on hand	N/A	N/A	\$ 71,675	\$ 71,675	\$ 72,450	\$ 72,450
General operating account	N/A	N/A	298,595	298,595	592,197	592,197
Capital project account	N/A	N/A	200	200	76,339	76,339
Capital project operating account	N/A	N/A	<u>298,226</u>	<u>298,226</u>	<u>-0-</u>	<u>-0-</u>
Total			<u>\$668,696</u>	<u>\$668,696</u>	<u>\$740,986</u>	<u>\$740,986</u>

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of cash, receivables, investments, prepaids, amounts and salaries payable, and other obligations approximate fair value because of the short maturities of these items.

NOTE 5 - CONCENTRATION OF RISK:

The primary funding sources for RNO are restaurant and catering sales and grants. If the amount of funds received from sales and other funding sources fall below operating levels, RNO's operating results could be adversely affected.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - RISK MANAGEMENT:

RNO is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, for which **RNO** carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE 7 - INVESTMENTS:

At December 31, 2012 and 2011, investments consisted of certificates of deposit and corporate bonds stated at estimated fair market value as follows:

<hr/> 2012 <hr/>				
<u>Description</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Carrying Value</u>	<u>Estimated Fair Market Value</u>
N/A	N/A	N/A	N/A	N/A
<hr/> 2011 <hr/>				
<u>Description</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Carrying Value</u>	<u>Estimated Fair Market Value</u>
Certificate of Deposit	1.10	09/11/13	\$100,000	\$100,000
Certificate of Deposit	1.30	03/17/14	100,000	100,000
Certificate of Deposit	.85	03/18/13	98,000	98,000
Certificate of Deposit	1.00	09/18/12	100,000	100,000
Certificate of Deposit	1.25	05/05/14	<u>50,000</u>	<u>50,000</u>
Subtotal - certificates of deposit			<u>448,000</u>	<u>448,000</u>

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 7 - INVESTMENTS, CONTINUED:

-----2011-----				
<u>Description</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Carrying Value</u>	<u>Estimated Fair Market Value</u>
Corporate Bonds:				
Capital One Financial Co.	2.125	07/15/14	\$ 90,376	\$ 88,846
Charter One Bank	6.375	05/15/12	152,245	151,185
Energy Transfer Partners	6.00	07/01/13	106,203	105,273
Fifth Third Bank	4.75	02/01/15	53,043	51,794
Goldman Sachs Group, Inc.	5.15	01/15/14	106,420	101,903
JP Morgan Chase & Co.	1.65	09/30/13	100,595	100,718
Bank of New York Mellon	2.95	06/18/15	78,804	77,779
HSBC Finance Corp.	3.90	04/15/15	51,079	48,791
American Express Co.	2.75	09/15/15	66,082	65,345
Bank of America Corp.	STEP	10/31/14	90,679	88,875
Subtotal corporate bonds			<u>895,526</u>	<u>880,509</u>
Grand total			<u>\$1,343,526</u>	<u>\$1,328,509</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Dividend and interest on investments	\$32,620	\$ 30,507
Realized gain/unrealized (loss) on investment	<u>26,050</u>	<u>(23,430)</u>
Total investment return, net	<u>\$58,670</u>	<u>\$ 7,077</u>

NOTE 8 - GRANTS:

During 2012 and 2011, RNO recognized grant awards in the amount of \$1,196,380 and \$299,579.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 9 - PROPERTY AND EQUIPMENT, NET:

At December 31, 2012 and 2011, property and equipment consisted of the following:

-----2012-----					
	Balance January 1, 2012	Additions	Other	Disposal	Balance December 31, 2012
Land	\$270,627	\$ -0-	\$ -0-	\$ (-0-)	\$ 270,627
Building and building improvements	51,773	-0-	-0-	(51,773)	-0-
Vehicle	6,547	-0-	-0-	(-0-)	6,547
Furniture and fixtures	20,760	-0-	(18,634)	(2,126)	-0-
Equipment	55,771	83,066	18,634	(21,036)	136,435
Construction in progress	401,167	3,662,753	-0-	(401,167)	3,662,753
Other assets	<u>-0-</u>	<u>644</u>	<u>-0-</u>	<u>-0-</u>	<u>644</u>
Total	806,645	3,746,463	-0-	(476,102)	4,077,006
Less: accumulated depreciation	<u>(87,271)</u>	<u>(17,364)</u>	<u>-0-</u>	<u>61,126</u>	<u>(43,509)</u>
Net	<u>\$719,374</u>	<u>\$3,729,099</u>	<u>\$ -0-</u>	<u>\$(414,976)</u>	<u>\$4,033,497</u>

-----2011-----				
	Balance January 1, 2011	Additions	Other	Balance December 31, 2011
Land	\$270,627	\$ -0-	\$-0-	\$270,627
Building and building improvements	51,773	-0-	-0-	51,773
Vehicle	6,547	-0-	-0-	6,547
Furniture and fixtures	2,126	18,634	-0-	20,760
Equipment	52,283	3,488	-0-	55,771
Construction in progress	<u>328,760</u>	<u>72,409</u>	<u>(2)</u>	<u>401,167</u>
Total	712,116	94,531	(2)	806,645
Less: accumulated depreciation	<u>(67,902)</u>	<u>(19,555)</u>	<u>186</u>	<u>(87,271)</u>
Net	<u>\$644,214</u>	<u>\$ 74,976</u>	<u>\$184</u>	<u>\$719,374</u>

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

RNO is a recipient of grants which are governed by contractual agreements.

The administration of the programs and activities funded by the grants are under the control and administration of **RNO** and subject to audit and/or review by the applicable funding source. Any grant or award funds found to be not properly spent in accordance with the terms, conditions and regulations of the funding source may be subject to recapture.

NOTE 11 - IN-KIND REVENUE (EXPENSE):

At December 31, 2012 and 2011 in-kind consisted of contributed services, printing, design, production, mentoring and meals totaling approximately \$1,596 and \$18,132.

NOTE 12 - AMOUNTS RECEIVABLE:

At December 31, 2012 and 2011 amounts receivable consisted of the following:

	<u>2012</u>	<u>2011</u>
Accrued interest and dividend receivable	\$ -0-	\$ 11,110
Contributions receivable	183,950	377,213
Grants receivable	150,951	23,710
Other	<u>25,837</u>	<u>63</u>
	<u>\$360,738</u>	<u>\$412,096</u>

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 13 - RELATED PARTY TRANSACTIONS:

During 2008, **RNO** participated in real estate housing projects. Also, participating in a venture was Reconcile New Orleans Development Corporation, LLC (**RNO, LLC**). As a result of the referenced housing project, one (1) employee of **RNO** purchased one of the two (2) parcels of real estate developed with **RNO, LLC** holding a \$30,000 debt to be forgiven over an affordability period of fifteen (15) years.

RNO currently owns the land on which the 1631 Oretha Castle Haley Boulevard building is located. Further, **RNO** has a master land lease agreement with Reconcile Landlord, LLC (sole owner **RNO**) expiring on December 31, 2044 for a minimum annual rent of \$12,000.

Reconcile Landlord, LLC owns the building and improvements located at 1631 Oretha Castle Haley Boulevard.

On September 30, 2011, Café Reconcile Landlord, LLC was incorporated as a limited liability company authorized to transmit business in the State of Louisiana. Café Reconcile Landlord, LLC has as its sole owner, **RNO**.

Further, on September 28, 2011, Reconcile New Orleans Investments, LLC was incorporated as a limited liability company with its sole owner, Café Reconcile Landlord, LLC.

Reconcile New Orleans Investments, LLC owns .01% of Café Reconcile Tenant, LLC established on September 28, 2011 and is also its manager. Café Reconcile Tenant, LLC has joint ownership of which 99.99% is owned by TAC Historic Tax Credit Fund 2011, LP in the building located at 1631 Oretha Castle Haley Boulevard.

In a historic tax credit agreement dated November 8, 2011, Café Reconcile Landlord, LLC subject to the terms of the referenced agreement was to file an election with respect to the building located at 1631 Oretha Castle Haley Boulevard to transfer the historic tax credit to Reconcile Tenant, LLC pursuant to the provisions of Section 501(d) of the Code and Section 1.48-4 of the regulations.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 13 - RELATED PARTY TRANSACTIONS, CONTINUED:

On November 8, 2011, **RNO** executed a promissory note with Café Reconcile Landlord LLC (sole owner **RNO**) in the amount of \$765,828 to rehabilitate and construct a new addition located at 1631 Oretha Castle Haley Boulevard. The note is collateralized by a certain real estate described as 1631 Oretha Castle Haley Boulevard.

The note bears a 0% interest rate and the entire principal balance is payable in full at the earlier of December 31, 2041 or upon sale or refinance of the project. The present value of the note is recorded using a discount rate of 6%.

Further, **RNO** on November 8, 2011 executed a promissory note with a related party Café Reconcile Landlord LLC for the sum of \$350,000 with interest at 2.5% for a period of time from closing to maturity. The terms of the loan calls for a monthly payment commencing on December 1, 2012 with all remaining at maturity on December 1, 2042. At December 31, 2012 and 2011 total amount of the loan commitment disbursed was \$133,889 and \$-0-, respectively.

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS:

The restrictions on net assets at December 31, 2012 are related to net assets for which the donor-imposed restrictions have not been met. Restrictions on net assets at December 31, 2012 and 2011 are related to funds raised through **RNO**'s capital campaign fund for the renovation of its existing office building.

RNO executed an agreement that commits 99.99% ownership in its building to an investor. Part of the agreement requires the acquisition of tax credits (State and Federal) in the amount of approximately \$1,395,822 expiring on December 31, 2013. **RNO** has a five (5) year payment schedule with the investor. In addition, **RNO** was awarded a State grant to provide partial funding in the renovation of its building. Further, **RNO** received loans from various entities used to fund the renovation of the building for which it owns .01%.

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 15 - INCOME TAXES:

RNO files an exempt tax return, as such its filed tax returns for the three (3) years ended December 31, 2012 and 2011 are subject to examination by the IRS.

NOTE 16 - SUBSEQUENT EVENTS:

RNO is required to evaluate events or transactions that may occur after the statement of financial position date for potential recognition and/or disclosure in the accompanying financial statements. **RNO** performed such an evaluation through September 30, 2014, the date on which the accompanying consolidated financial statements were available to be issued, and noted no subsequent events or transactions that occurred requiring recognition and/or disclosure.

NOTE 17 - AMOUNTS AND OTHER PAYABLES:

At December 31, 2012 and 2011 amounts and other payables consisted of the following:

	<u>2012</u>	<u>2011</u>
Payments to vendors and others	<u>\$464,943</u>	<u>\$33,246</u>
	<u>\$464,943</u>	<u>\$33,246</u>

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 18 - NOTES PAYABLE:

On December 7, 2012, **RNO** entered into a note payable with a bank with simple interest assessed on a variable rate basis. The note is payable in full immediately upon lender's demand. If no demand is made, **RNO** will make in one payment all outstanding principal plus all accrued unpaid interest on December 6, 2013. Regular monthly payments of all accrued unpaid interest is due on each payment date, beginning January 7, 2013 and is collateralized by inventory. The outstanding balances on the note were \$5,315 and \$-0- at December 31, 2012 and 2011, respectively. \$ 5,315 \$ -0-

On November 8, 2011, **RNO** executed promissory note payable to Gulf Coast Housing Development, Inc. in the sum of \$765,828 to bear an interest rate of 0% for the period through maturity of December 31, 2041. The entire principal balance of the note is due and payable in full at the earlier of December 31, 2041 or upon sale or refinance of the loan. Further, **RNO** is required to pay administrative fee in the amount of \$10,000 annually on the last day of December for a five year period commencing on 2010 through 2014. The fee caps at \$50,000.

The present value of the note is recorded using a discount rate of 6%. 765,828 -0-

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 18 - NOTES PAYABLE, CONTINUED:

Also, on November 8, 2011, **RNO** entered into a note payable with New Orleans Redevelopment Authority a public entity for \$350,000 to pay costs and expenses associated with the rehabilitation of 1631 Oretha Castle Haley Boulevard with a stated interest rate of 2.5% per annum. The note matures on the earlier of the borrower's sale or refinance of the property or fifteen (15) years from the date of issuance of the building's temporary or permanent certificate of occupancy, not to exceed sixteen (16) years from the date of the loan agreement. Such payments shall commence one (1) year following issuance of a temporary or permanent certificate of occupancy. The loan shall be payable in monthly installments. At December 31, 2012 and 2011, the outstanding balances were \$133,889 and \$-0-, respectively.

	<u>\$133,889</u>	<u>\$ -0-</u>
Total notes payable	905,032	-0-
Less current portion of notes payable	<u>(5,315)</u>	<u>-0-</u>
Total noncurrent portion of notes payable	<u>\$899,717</u>	<u>\$ -0-</u>

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 18 - NOTES PAYABLE, CONTINUED:

Future scheduled maturities of notes payable are as follows:

Years Ending December 31:

2013	\$ 5,315
2014	13,596
2015	8,433
2016	8,647
2017	8,865
Thereafter	<u>860,176</u>
Total	<u>\$905,032</u>

NOTE 19 - CONSTRUCTION LOAN PAYABLE:

Amount represents a construction loan payable originated on November 8, 2011 for \$1,250,000 at 6% for a term of fifty-three months. At December 31, 2012 and 2011 amount advanced were \$915,588 and \$12,815, respectively.

NOTE 20 - SUBSIDIARIES DATA:

The statements of financial position and activities for the subsidiaries follows:

**Statement of Financial Position
December 31, 2012**

	Café Reconcile Landlord, LLC	Reconcile New Orleans Investments, LLC	Café Reconcile Tenant, LLC
Total assets	<u>\$5,204,659</u>	<u>\$ -0-</u>	<u>\$2,500</u>
Total liabilities	<u>3,351,623</u>	<u>-0-</u>	<u>-0-</u>
Total equity	<u>1,853,036</u>	<u>-0-</u>	<u>2,500</u>
Total liabilities and equity	<u>\$5,204,659</u>	<u>\$ -0-</u>	<u>\$2,500</u>

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 20 - SUBSIDIARIES DATA, CONTINUED:

**Statement of Financial Position
December 31, 2011**

	Café Reconcile Landlord, LLC	Reconcile New Orleans Investments, LLC	Café Reconcile Tenant, LLC
Total assets	<u>\$12,815</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Total liabilities	<u>12,815</u>	<u>-0-</u>	<u>-0-</u>
Total equity	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total liabilities and equity	<u>\$12,815</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**Statement of Activities
For the Year Ended December 31, 2012**

	Café Reconcile Landlord, LLC	Reconcile New Orleans Investments, LLC	Café Reconcile Tenant, LLC
Revenue	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Expenses	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

RECONCILE NEW ORLEANS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 20 - SUBSIDIARIES DATA, CONTINUED:

**Statement of Activities
For the Year Ended December 31, 2011**

	Café Reconcile Landlord, LLC	Reconcile New Orleans Investments, LLC	Café Reconcile Tenant, LLC
Revenue	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Expenses	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>

NOTE 21 - NOTE RECEIVABLE:

Note receivable at December 31, 2012 of \$1,170,835 and \$-0- at December 31, 2011, represents funds advanced to Café Reconcile Tenant, LLC by Café Reconcile Landlord, LLC in connection with the 1631 Oretha Castle Haley Boulevard construction project.

The note dated November 8, 2011 bears an interest rate of 2.5% beginning December 1, 2012 through November 30, 2022 (the "Interest Only Period"). During the Interest Only Period, the loan shall also be partially repaid during the years 2012, 2013, 2014, 2015, 2016 and 2017 with equity from the sale of Federal Historic Tax Credits (the "Equity"). From the period of time beginning December 1, 2022 until maturity ("Amortization Period"), the loan shall be amortized monthly at the rate of 2.5%, with all remaining principal and interest due at maturity.



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA
Joseph A. Akarji, CPA

(Retired)
Michael B. Bruno, CPA (2011)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Reconcile New Orleans, Inc.
New Orleans, Louisiana

We have audited in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the consolidated financial statements of **Reconcile New Orleans, Inc. (RNO)** as of and for the year ended December 31, 2012 and the related notes to the consolidated financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered RNO's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing our opinion on the effectiveness of RNO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RNO's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, significant deficiencies, or material weaknesses may exist that were not identified. However, as described in the subsequent paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency and material weaknesses.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
CONTINUED

Internal Control Over Financial Reporting, Continued

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Summary Schedule of Findings and Responses as item 2012-02 to be a significant deficiency in internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies or material weaknesses in internal control such that there is a reasonable possibility that a material misstatement of RNO's financial statements will not be prevented, or detected and corrected by RNO on a timely basis. We consider the deficiencies described in the accompanying Summary Schedule of Findings and Responses as items 2012-01 and 2012-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RNO's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Summary Schedule of Findings and Responses as items 2012-04, 2012-05 and 2012-06.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

RNO's Response to Findings

RNO's response to the findings identified in our audit is described in the accompanying Summary Schedule of Findings and Responses under the caption "Management's Response and Planned Corrective Action" or "Current Status". We did not audit RNO's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of RNO's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RNO's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

September 30, 2014

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	Yes
Non-compliance material to financial statements noted:	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	N/A
• Significant deficiency(ies) identified?	
Type of auditor's report issued on compliance for major programs:	N/A
Any audit findings disclosed that required to be reported in accordance with Section 510(a) of Circular A-133?	N/A

N/A - Not Applicable

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section I - Summary of Auditors' Results, Continued

Identification of major programs: N/A

Dollar threshold used to distinguish
between type A and type B programs: N/A

Auditee qualified as low-risk auditee? N/A

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses

Reference Number

2012-01

Criteria

Management of **RNO** is responsible for the establishment of effective and efficient processes and procedures for all financial transactions or economic events to ensure the complete and accurate preparation of its financial statements as required by Board policy.

Condition

Our review of the detail general ledger generated by **RNO** as of and for the year ended December 31, 2012, revealed the following significant conditions:

- Year end accruals were not completely reflected in the accounting records to include an instance where three (3) transactions were incorrectly accrued at December 31, 2012.
- Costs incurred for various grants received were incorrectly recorded as notes receivable. In one (1) instance loan funds from a funding source was incorrectly recorded as grant revenue.
- Note(s) receivable recorded in the general ledger prior to the effect of adjustments for allowance for doubtful accounts in the amount of approximately \$4,100,000 was without the benefit of an executed document(s) to support existence. An executed document was finally provided to us on February 24, 2014. Further, we were unable to verify collectibility (valuation) in recorded amount.
- A line-of-credit for \$1,250,000 executed by a separate legal entity managed by **RNO**, was incorrectly posted to **RNO**'s general ledger.
- Donations of cash on-hand and commitment in excess of \$272,000 at December 31, 2012, were not recorded prior to the effect of audit adjustments.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number, Continued

2012-01

Condition, Continued

- A net amount of \$19,807 resulting from the effect of various adjustments was recorded in the general ledger as miscellaneous income. Management was unable to provide supporting documentation.

Furthermore, RNO does not have adequate documentation of the significant components to include the associated risks, if any, of its internal control over financial reporting. In addition, the personnel size of RNO blends to an inadequate segregation of duties within significant general ledger accounts, processes and financial reporting. Such a condition was evident in the level of oversight of the financial reporting cycle.

Context

Total expenses for the year ended December 31, 2012 were \$1,498,456.

Effect or Potential Effect

Potential risk or weakness associated with the internal control over RNO's financial reporting cycle.

Cause

Completeness of financial reporting closing process to facilitate the timely analysis and review to ensure the completeness of all financial statements prepared for management and board review.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number, Continued

2012-01

Recommendation

Management should continue to revisit with its current general ledger processing system, plan, and require that all monthly transactions are recorded in the general ledger system on a timely basis, the process should also include the maintenance of all supporting documents to support the basis for all recorded transactions. Further, the necessary periodic analysis should be performed timely with all resulting adjustments, if any, posted immediately.

Management's Response and Planned Corrective Action

Effective immediately, all financial transactions will be recorded within one (1) day of receipt in the accounting department and subsequently posted in Compeat (current accounting software). Further, the accounting department will verify that all supporting documents are attached to evidence the transactions and filed accordingly.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number

2012-02

Criteria

The management of RNO is responsible for establishing and maintaining adequate internal control over financial reporting. Such responsibility includes monitoring of all grants and associated activities, awards and/or donations to ensure the complete and timely reporting to grantors and others.

Condition

Currently, RNO does not have a centralized and a coordinated system in place to facilitate the effective monitoring of compliance with its contractual responsibility to its funders, program deliverables, and the accumulation of costs for reporting to grantors and/or donors particularly for donor imposed restricted funds. For two (2) grant awards, we were unable to independently verify compliance with the programmatic and financial reporting requirements. Further, we noted no approved modification on file to support changes to the required reporting requirement by a donor. A subsequent cost report made available to us was without the benefit of documentation to support cost reflected on the report as incurred. However we noted that RNO received funding in the subsequent year.

Context

Total expenses for the year ended December 31, 2012 were \$1,498,456.

Effect or Potential Effect

The potential for noncompliance with program activities to include deliverables within established timelines with resulting risk in eligibility of incurred costs.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number, Continued

2012-02

Cause

Lack of effective coordination between all internal stakeholders associated with the monitoring, preparation and submission of external reports pursuant to the respective agreements.

Recommendation

Management should revisit with its current procedures to ensure the establishment of an enhanced coordination of all parties involved in the report preparation and submission process. Also, documented evidence should be maintained on file to support all attained program compliance requirements.

Management's Response and Planned Corrective Action

RNO has created a folder on its network to archive all documents pertaining to development and program funds. This process should provide timely view and access for all stakeholders. Finally, these program documents will be scanned and filed accordingly.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number

2012-03

Criteria

The management of **RNO** is responsible for the completeness of its financial statements to include all externally submitted reports.

Condition

The lack of an effective coordination between all stakeholders impacted the completeness in recorded transactions. As a result, the December 31, 2012 audit report included significant audit adjustments to fairly state the financial statements.

Context

Total expenses for the year ended December 31, 2012 were \$1,498,339.

Effect or Potential Effect

Incomplete financial statements which may impact the ability of management to make informed judgements about the operations of **RNO**.

Cause

Inadequate coordination of activities between all internal stakeholders impacting **RNO's** financial reporting processes.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number, Continued

2012-03

Recommendation

We recommend that management revisit with its existing financial and program reporting processes to ensure the timely and accurate accounting and recordation of all financial activities.

Management's Response and Planned Corrective Action

On a monthly basis the Chief Executive Officer, the accounting department and RNO's neighborhood partner will review and discuss the financial statements and associated general ledger.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number

2012-04

Criteria

Article XI of the Cooperative Endeavor Agreement (CEA) between **RNO** and the State of Louisiana (State) states:

RNO "hereby covenants that it owns, will acquire title to, or obtain servitudes for the property upon which the Project is to be located and that it shall not, while any of the Project Bonds remain outstanding, or during the term of this Agreement, transfer, convey, sell, mortgage, assign or otherwise alienate its ownership or servitude rights in the land or real property and appurtenances which constitute the Project. Projects to be located by permits on existing property of the State or a political subdivision of the State are exempt from these ownership requirements".

Further, Article XVIII requires all modifications to be in writing and duly signed.

Condition

An executed agreement provided to us by **RNO** reflects the transfer of 99.99% of the building and structures to another entity contrary to the requirements of the CEA with the State.

It is our understanding through discussion with management that **RNO** has a member interest as well as a call option at the end of five (5) years on the tax credit investor's membership interest.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number, Continued

2012-04

Effect or Potential Effect

Potential noncompliance with the requirements of the CEA with the State.

Context

Total capital outlay award expended under the CEA with the State for the year ended December 31, 2012 was \$430,552.

Cause

Lack of an effective monitoring process to ensure RNO's compliance in all contractual agreements.

Recommendation

Management of RNO should pursuant to Article XVIII of the CEA reduce its understanding with the State of the modification to writing, duly signed.

Management's Response and Planned Corrective Action

Managements will work with the State to secure the necessary documents.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number

2012-05

Criteria

Management of RNO is responsible for identifying award programs and understanding and complying with its compliance requirements.

Condition

For a Department of Justice grant award, we were unable to review the supporting documents for the cost incurred, billed and reimbursed in the amount of \$56,293 during the year ended December 31, 2012.

Context

Total expenses for the year ended December 31, 2012 were \$1,498,456.

Effect or Potential Effect

Deficiencies in RNO's internal control system to ensure the provision of an audit trail for specific program transactions.

Cause

No clearly defined roles between the program and accounting staff relative to the preparation and submission of reports to third parties.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number, Continued

2012-05

Recommendation

We recommend that management continues to re-evaluate its internal control design, develop and implement procedures and processes to facilitate the accumulation of specific program financial information to support all reports submitted to the funding sources.

Management's Response and Planned Corrective Action

The Chief Executive Officer, accounting staff and program department will meet on a periodic basis to discuss processing and submission of all required reports. Further, all required documents will be scanned and kept in folders. The accounting department will continue to monitor the processing of the information for internal purposes.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number

2012-06

Criteria

Louisiana Revised Statute 24:513 requires the submission of audited financial statements within six (6) months of year end or within an approved extension request.

Condition

The audited financial statements as of and for the year ended December 31, 2012 were not published by June 30, 2013 (statutory due date).

Context

Total expenses for the year ended December 31, 2012 were \$1,498,456.

Effect or Potential Effect

Noncompliance with the statutory due date requirement of Louisiana Audit Law.

Cause

Nature of RNO's accounting records to include timing in the resolution of open items to conclude on the 2012 audit.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number, Continued

2012-06

Recommendation

Management should re-evaluate its financial reporting processes with an aimed towards its completeness to facilitate the timely, and efficient preparation of complete financial statements.

Management's Response and Planned Corrective Action

The Chief Executive Officer and the accounting department staff have begun the preparation for the 2013 audit. RNO has taken the necessary steps to alleviate late filing. All 2013 files have been boxed and ready with all supporting documents attached. The early availability of required files and documents should allow for a timely submission of our audited financial statements.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number

2012-07

Criteria

Management is responsible for all service providers' deliverables, subject to initial board approval, where applicable where applicable. Further, management has the responsibility to retain all required documents to support economic events executed by RNO.

Condition

We noted several intercompany transactions involving the rehabilitation of the building located at 1631 Oretha Castle Haley Boulevard to include the incorporation of several organizations in connection with the referenced project by RNO's legal counsel.

Further, we noted executed loan transactions and capital investments with the referenced entities. However, we noted no evidence of specific board approval to include the complete retention of legal and contractual documents to support and facilitate a complete and accurate accounting of all the associated transactions.

Context

Total value of all transactions was approximately \$4,800,000 between the related parties through December 31, 2012.

Effort or Potential Effect

Inadequate trail to ensure the completeness in recorded economic events.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings and Responses, Continued

Reference Number, Continued

2012-07

Cause

Transitional challenges at the executive management level coupled with the lack of a system in place to ensure the required documents for all economic transactions.

Recommendation

Management should revisit with its current record retention process with an aim towards ensuring the retention of documented evidence of all transactions to include the necessary board approval where applicable to support all executed transactions.

Management's Response and Planned Corrective Action

The Finance Committee is working on the development and implementation of policies to address related party transactions.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section III - Federal Award Findings and Responses

No federal award findings were reported for the year ended December 31, 2012.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section IV - Status of Prior Year's Findings and Responses

Reference Number

2011-01

Condition

Currently, RNO does not possess the in-house capacity to facilitate the complete and accurate preparation of its financial statements to include related footnote disclosures pursuant to the requirements of generally accepted accounting principles.

Furthermore, RNO does not have adequate documentation of the significant components to include the associated risks, if any, of its internal control over financial reporting. In addition, the personnel size of RNO blends to an inadequate segregation of duties within significant general ledger accounts, processes and financial reporting.

(This is a repeat of similar prior year findings reference numbers 2010-01, 2009-04, 2008-01, 2007-01 and 2006-01).

Recommendation

We recommend that management of RNO continue to evaluate its current internal control with an aim towards minimizing potential risks that may result from its inability to adequately safeguard its assets. Such an evaluation should include the level of interdepartmental coordination necessary to facilitate complete and accurate financial reporting.

Furthermore, the Board of Directors should continue its oversight through an effective use of committees to review and evaluate financial reports and programs, accounting processes and policies on an ongoing basis.

Current Status

Unresolved. See current year's findings reference numbers 2012-01 and 2012-03.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section IV - Status of Prior Year's Findings and Responses, Continued

Reference Number

2011-02

Condition

Currently, RNO does not have a centralized and coordinated system in place to facilitate the effective monitoring in compliance of contractual, program deliverables and accumulation of cost for reporting to grantors and/or donors for donor imposed restricted funds.

(This condition is similar to prior year findings reference numbers 2010-02 and 2010-03).

Recommendation

Management should revisit its current procedures to ensure enhanced coordination of all parties involved in the report preparation and submission process. Also, documented evidence should be maintained on file to support all program compliance.

Current Status

Unresolved. See current year's finding reference number 2012-02.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section IV - Status of Prior Year's Findings and Responses, Continued

Reference Number

2011-03

Condition

The December 31, 2011 audit report included significant audit adjustments to fairly state the financial statements. This condition was further compounded by the resignation of the Business Manager which impacted our ability to perform an effective, efficient, and timely audit.

Recommendation

We recommend that management revisit with its existing financial and program reporting processes to ensure the timely and accurate accounting and recordation of all financial activities.

Current Status

Unresolved. See current year's finding reference number 2012-03.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section IV - Status of Prior Year's Findings and Responses, Continued

Reference Numbers

2007-02, 2006-02, 2005-01, 2004-01
and 2003-01

Condition

Our review of RNO fixed assets revealed the absence of a formal written policy to ensure the timely and accurate accounting and recordation of all fixed assets activities (purchased and donated), to include the related depreciation. Also, we noted no formal written policy for the management of food inventory.

The current fundraising procedures do not provide for adequate and consistent tracking of all fundraising activities.

Recommendation

We recommend that management of RNO establish and implement a formal system to ensure that all purchases, donations and sales, if any, of assets are properly recorded to minimize the potential risk of loss from misappropriation and erroneous financial statement reporting. That process should include periodic and year end reconciliation of the physical inventory count to the general ledger and adjustments, if any, made accordingly.

Furthermore, depreciation expense on all capitalizable assets should be recorded on a monthly basis to accurately reflect all financial statement activities of RNO.

Finally, the current fundraising procedures should be revised to include the adequate tracking, complete and timely reporting and recordation of all fundraising activities.

Current Status

Resolved.

RECONCILE NEW ORLEANS, INC.
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

Section IV- Status of Prior Year's Findings and Responses, Continued

Reference Numbers

2007-03, 2006-03, 2005-02, 2004-02
and 2003-03

Condition

Currently, the financial statements for **RNO** are compiled by its fee accountant. However, we noted no formal written accounting policies and procedures manual to address policy issues, processes and procedures relating to **RNO's** internal control, chart of accounts, general ledger, cash receipts, disbursements, procurement, cash management, investments, fixed assets, checksigning, cashflow forecasting and budgeting.

Recommendation

We recommend that management of **RNO** develop and implement an accounting policies and procedures manual.

Current Status

Resolved.

RECONCILE NEW ORLEANS, INC.

EXIT CONFERENCE

An exit conference was held with representatives of RNO. The contents of this report were discussed and management is in agreement. Those persons in attendance at the exit conference were as follows:

RECONCILE NEW ORLEANS, INC.

Glen Armantrout	--	Chief Executive Director
Michelle Ordogne	--	Business Manager
Phyllis Cassidy, CPA	--	Fee Accountant

BRUNO & TERVALON LLP, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Paul K. Andoh, Sr., CPA, MBA, CGFM	--	Partner
Ms. Toni Murphy	--	Senior



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA
Joseph A. Akanji, CPA

(Retired)
Michael B. Bruno, CPA (2011)

INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS RELATED TO INTERNAL CONTROL

To the Board of Directors
Reconcile New Orleans, Inc.
New Orleans, Louisiana

In planning and performing our audit of the financial statements of **Reconcile New Orleans (RNO)** as of and for the year ended December 31, 2012 in accordance with auditing standards generally accepted in the United States of America, we considered **RNO's** internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of **RNO's** internal control. Accordingly, we do not express an opinion on the effectiveness of **RNO's** internal control.

As a part of our audit, we became aware of certain other matters that are opportunities for strengthening internal control and operating efficiency. In addition, we reviewed with management the status of prior year's other matters. We previously reported on **RNO's** internal control over financial reporting in our report dated February 24, 2014. This letter does not affect our report dated February 24, 2014 on **RNO's** internal control over financial reporting or the financial statements of **RNO**.

We will review the status of these other matters during our next audit engagement. We have already discussed these other matters with **RNO's** personnel, and we will be pleased to discuss these other matters in further detail at your convenience.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**

(CONTINUED)

Current Year's Other Matters
2012

The following is our current year's other matters related to internal control:

Reference Number

OM 2012-01

Condition

We judgementally selected ten (10) cash receipt transactions from the October 2012 (month judgementally selected for testing) detail general ledger noting, no supporting documentation for four (4) of the ten (10) recorded cash receipt transactions tested.

Further, in four (4) of the ten (10) cash receipt transactions tested, we noted no sequentially numbered receipts in accordance with RNO's Financial Accounting Policies and Procedures Manual.

Also, in three (3) of the ten (10) cash receipt transactions tested, we were unable to independently verify the timeliness within which receipts were deposited as checks received are neither stamped received nor receipted as of the date received.

Recommendation

Management should ensure through periodic monitoring staff compliance with Board approved policies and procedures.

Management's Response and Planned Corrective Action

RNO through its new software (Compeat) and services of an accounting firm, will enhance the level of oversight needed to ensure compliance with Board policies.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**

(CONTINUED)

Current Year's Other Matters, Continued,
2012

Reference Number

OM 2012-02

Condition

Our review of RNO's internal control procedures in place with respect to cash receipts, revealed excessive functions performed by the current office manager, including opening the mail, depositing cash, to include access to unsealed restaurant cash after the count, etc.

Additionally, credit cards receipts submitted to the bank for processing are not reconciled to original receipts as processed to ensure accuracy and completeness of submitted receipts.

Recommendation

We recommend that management revisit with the current process and develop offsetting controls (understanding the size of RNO) aimed at mitigating the potential risks described.

Management's Response and Planned Corrective Action

RNO has changed certain duties of the accounting department personnel relative to opening mail, etc. This function and task have been delegated to the Chief Executive Officer's administrative assistant for processing. Further, cash receipts received by the accounting department are now verified and deposited by the restaurant manager.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**
(CONTINUED)

Current Year's Other Matters, Continued,
2012

Reference Number

OM 2012-03

Condition

We judgementally selected thirty (30) cash disbursement transactions from the October 2012 (month judgementally selected for testing) detail general ledger noting the following conditions:

- o Seven (7) of the thirty (30) cash disbursements lacked supporting documentation in the form of invoices, approved request for payment etc.;
- o We were unable to independently verify that twenty-three (23) of thirty (30) invoices reviewed were stamped paid or cancelled upon payment in accordance with RNO's Financial Accounting Policies and Procedures Manual;
- o We were unable to independently ascertain the reasonableness and allowability for non grant cost for twelve (12) of thirty (30) invoices tested;
- o We were unable to independently review in thirty (30) of the thirty (30) disbursement transactions for proof of mathematical verification in accordance with RNO's Financial Accounting Policies and Procedures; and
- o Noted incompleteness (management approval) in documents provided to us in two (2) of thirty (30) transactions tested, and insufficient supporting documentation to facilitate our determination of contract compliance for one (1) of the thirty (30) transactions tested.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**

(CONTINUED)

Current Year's Other Matters, Continued,
2012

Reference Number, Continued
OM 2012-03

Condition, Continued

Additionally, we were unable to verify correctness of the general ledger line item classification and related account code based on documents provided to us, in thirty (30) of the thirty (30) transactions tested pursuant to RNO's Financial Accounting Policies and Procedures Manual.

Further, based on documentation provided for our review, we were unable to independently verify whether purchases of non food items over \$500 were approved in advance by the Office Manager pursuant to RNO's Financial Accounting Policies and Procedures Manual.

Recommendation

Management should provide an enhanced level of oversight to ensure compliance with established policies and procedures.

Management's Response and Planned Corrective Action

The Quickbooks software system did not have the ability to house such information which caused issues with inaccurate data. RNO has updated its accounting software which now has the capacity to fully capture food cost, food item, and will allow management to monitor and identify erroneous entries in a timely matter.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**
(CONTINUED)

Current Year's Other Matters, Continued,
2012

Reference Number

OM 2012-04

Condition

We noted through discussion with RNO's office manager (relative to payroll processing) that salaried employees are paid their full bi-weekly salary unless leave usage is reported by the employee. Additionally, leave balances are not independently tracked by the office manager.

Further, based on our review of the final payroll reports for the two (2) pay periods tested, (October 6, 2012, and October 20, 2012) we were unable to independently verify payroll approvals by designated management personnel.

While gross and net pay were properly computed based on rates and hours used by the office manager, we are unable to independently verify their correctness due to outdated employee agreements for all three (3) employee files tested.

Furthermore, we noted missing documents required to support Form I-9 in two (2) of the three (3) employees tested. Manual changes were noted as made to RNO's "POS" system generated hours in one (1) of three (3) employee files tested without documented explanation.

Likewise, we noted in one (1) of six (6) payroll transactions whereby time noted as vacation hours was classified as regular time worked in the payroll register.

Finally, in one (1) of six (6) transactions tested, the total hours paid was 12.60-hours more than the total hours reported by the employee.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**

(CONTINUED)

Current Year's Other Matters, Continued,
2012

Reference Number, Continued
OM 2012-04

Recommendation

Management should revisit with its control processes as it relates to payroll processing to ensure its integrity.

Management's Response and Planned Corrective Action

Because payroll is approved through electronic files, there are no signed documents to evidence management approval. We recognize that through the transition and being understaffed may have caused the errors cited. However, management will continue to develop procedures to ensure the complete verification and validation of all payroll transactions. The current process has been revised to have multiple documentation of verification and validation with all resulting physical documents filed accordingly.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**

(CONTINUED)

Current Year's Other Matters, Continued,
2012

Reference Number

OM 2012-05

Condition

Outstanding checks dated as far back as 2007 totaling approximately \$25,000 were written off subsequent to December 31, 2012 rather than reclassified to amounts payable and reported to the state in accordance with the State of Louisiana Escheat Law.

Further, deposits in transit totaling approximately \$11,000 were recorded prior to October 2012 without proper supporting documentation and subsequently written off after December 31, 2012 without written explanation.

Recommendation

Management should ensure that all financial transactions are adequately supported and where necessary approved by management prior to recordation in the general ledger.

Management's Response and Planned Corrective Action

Management has instituted new procedures to minimize, if not eliminate the factors that have caused the referenced condition.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**

(CONTINUED)

Current Year's Other Matters, Continued,
2012

Reference Number, Continued
OM 2012-06

Condition

Although the size of RNO's personnel limits the extent of separation of duties, we believe that certain steps could be undertaken to separate incompatible duties (custodial and recordation) and also enhance management and board oversight.

(This condition is a repeat of a similar prior year other matter reference number OM 2010-03).

Recommendation

We recommend that management and the Board re-evaluate the current internal control processes and procedures with an aim towards strengthening various key areas such as fixed assets, food inventory control, cash receipts and disbursements, etc.

Management's Response and Planned Corrective Action

Management has contracted with a firm to provide oversight in its accounting reporting cycle to include the monthly preparation of financial statements.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**
(CONTINUED)

Current Year's Other Matters, Continued,
2012

Reference Number

OM 2012-07

Condition

We noted no written formal cost allocation policy and/or classification plan.

(This condition is a repeat of a similar prior year other matter reference number OM 2010-05).

As a part of RNO's annual budget preparation process, costs are allocated between the various departments. However, the current general ledger structure does not facilitate the classification of cost between program, management and general, and fundraising categories.

Recommendation

We recommend that RNO develop a written formal cost allocation policy that provides for a systematic allocation of shared costs and complete classification of costs.

Management's Response and Planned Corrective Action

Management has contracted with a firm to provide oversight in its accounting reporting cycle to include the monthly preparation of financial statements.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**
(CONTINUED)

Status of Prior Year's Other Matters
2011 and Prior

The following is a status of prior year's other matters related to internal control:

Reference Number
OM 2011-01

Condition

Currently, RNO has contracted with a service provider, its payroll processing and related tax filing services. However, we noted no established system in place to ensure that all required Federal, State and Local taxing authority reports are complete and filed timely.

Further, we noted no procedure to ensure the retention of all required reports.

Recommendation

Management should revisit with its current policies as it relates to all taxing authority reports to ensure the completeness and timelessness in all filed reports.

Current Status

Management will revise its Accounting and Procedures manual to incorporate this recommendation.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**

(CONTINUED)

Status of Prior Year's Other Matters, Continued
2011 and Prior

Reference Number

OM 2011-02

Condition

As a result of our review of RNO's various financial reporting processes, we noted no documented evidence to support management's continuous review and oversight of the process.

Recommendation

We recommend that management consider the use of an initialing and dating of work performed beyond the level of the preparer, such a review should include all key internal control processing areas (bank account reconciliations, significant general ledger account reconciliations and analysis to include payroll etc.).

Current Status

Management has contracted with a firm to provide the level of oversight necessary in its financial reporting cycle.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**

(CONTINUED)

Status of Prior Year's Other Matters, Continued
2011 and Prior

Reference Number

OM 2011-03

Condition

Stale dated checks included in December 31, 2011 bank account reconciliation is due in part to issues associated with voiding checks using the Quickbooks Pro Software system. Because of software issues which results in the restating of previously reconciled bank accounts after period close, RNO continues to carry the checks on its reconciliation.

Recommendation

Management should explore other avenues to ensure resolution to the referenced condition.

Current Status

Subsequent to year end, management has resolved this condition.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**
(CONTINUED)

Status of Prior Year's Other Matters, Continued
2011 and Prior

Reference Number

OM 2010-01

Condition

Our review of the bank account reconciliations for December 2010 revealed the following conditions:

- The reconciled balance at December 31, 2010 of \$172,608.08 did not agree to the general ledger balance of \$175,501.19 for a difference of \$2,893.11.
- Noted several checks outstanding for periods greater than one hundred and eighty days at December 31, 2010 totaling \$9,347.41.

Recommendation

As a part of the monthly bank account reconciliation processes, RNO should review and resolve all stale dated checks within a reasonable period of time.

Current Status

Resolved.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**
(CONTINUED)

Status of Prior Year's Other Matters, Continued
2011 and Prior

Reference Number
OM 2010-02

Condition

A test of the operating bank account reconciliations for April and December 2009, revealed a situation where for both months, the beginning general ledger balances reported on the bank reconciliations did not agree to the beginning balances in the general ledger. Additionally, the reconciliations included stale dated checks some dating as for bank as October 2008.

Stale dated checks outstanding at December 2009, totaling \$4,901, were traced to the latest reconciliation dated April 2010, and noted the condition still outstanding.

Recommendation

The established monitoring and oversight procedures should be adhered to in order to ensure the timely and complete resolution of differences noted in all monthly bank account reconciliation performed.

We recommend that management strengthen its oversight over its bank reconciliations process.

Current Status

Resolved.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**
(CONTINUED)

Status of Prior Year's Other Matters, Continued
2011 and Prior

Reference Number

OM 2010-03

Condition

During 2009, RNO caused to be executed on its behalf several settlement statements in conjunction with properties donated to RNO.

However, the fair value of the donated properties to include any related documents associated with the transaction were unavailable for review and/or recordation.

Furthermore, the properties' estimated fair value had not been reflected in RNO's general ledger as of December 31, 2009 prior to the effect of audit adjustments.

Recommendation

We recommend that the documents associated with the donated assets be secured and the necessary general ledger recordation undertaken accordingly.

Current Status

Resolved.

**INDEPENDENT AUDITORS' REPORT ON OTHER MATTERS
RELATED TO INTERNAL CONTROL**
(CONTINUED)

We wish to thank you and your staff for the support afforded us during our audit.

RNO's response to the other matters related to internal control described in our audit is described in this report under the caption "Management's Response and Planned Corrective Action" or "Current Status".

We did not audit RNO's response and accordingly express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and its regulatory agencies and is not intended to be and should not be used by any one other than these specified parties.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

February 24, 2014